

IN THE UNITED STATES DISTRICT COURT
FOR THE DISTRICT OF DELAWARE

CALLAWAY GOLF COMPANY,)
Plaintiff,) C.A. No. 06-91 (SLR)
v.)
ACUSHNET COMPANY,)
Defendant.)

**APPENDIX TO
ACUSHNET'S MEMORANDUM OF LAW IN SUPPORT OF
ITS MOTION TO EXCLUDE THE TESTIMONY AND REPORT OF
CALLAWAY'S EXPERT WITNESS BRIAN NAPPER**

VOLUME 1 OF 2

EXHIBITS 1 TO 7

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EXHIBIT 4

Titleist scores big with new ball

BY JOHN STEINBREDER

Las Vegas

Peter Jacobsen was sitting at a table in the clubhouse of the TPC at Summerlin the day before the start of the Invensys Classic at Las Vegas when he started talking about the new Titleist golf ball. Currently called the Pro V1 392, it was being put in play on the PGA Tour for the first time that week.

"This ball feels good to me, and it feels good to a lot of people," he said. "In fact, it is so superior to anything else out there that I guarantee you the person who wins this tournament will be playing it."

Jacobsen did not do well in Vegas and finished tied for 52nd. But he proved to be a champion fortune teller. The tournament winner, Billy Andrade, did indeed play the new Pro V1. So did second-place finisher Phil Mickelson and the man who came in third, Jonathan Kaye. Taken together, six of the top 10 and ties used the new ball — putting an exclamation point on Titleist's entry into what has escalated into the most intensely contested segment of the golf ball market.

And the success of the Pro V1 introduction was not limited to the Invensys. In Rancho Cucamonga, Calif., Scott Petersen won the Buy.com Inland Empire Open with it. And over in England at the Dunhill Cup, two members of the winning Spanish team, José María Olazábal and Miguel Ángel Martín, also played the ball.

In some ways, it is not so surprising that a player won the Las Vegas event with a Pro V1. After all, 47 competitors used it last week, about a third of the total field. Still, it was a remarkable debut, not only because Andrade won but also because so many people put it in play even though no one was under any contractual arrangement to play this ball.

"Ever since I first hit this ball, I wanted to play it," Davis Love III said on the range

before the tournament. "The softness of the cover brings it back to a Balata feel, but you gain distance at the same time."

Then Fred Couples came by. Unlike Love, he is not under agreement with Titleist and played something else in Las Vegas. But he seemed to be intrigued with the new ball, and when he saw a sleeve of them, packaged for the moment in an all-white boxes and sticking out of Love's bag, he walked over.

Couples, who endorses Maxfli balls, already knew a little something about the Pro V1 because Mickelson had played it in a Shell's Wonderful World of Golf match the two played last month. And word is that Mickelson outdrove Couples all day. "I've never seen anything like it in 20 years," Couples said as a small crowd gathered.

George Sine, the vice president of golf ball marketing and strategic planning for Acushnet Co., the parent of Titleist, was also roaming the range at Summerlin, and he talked about specifications of the Pro V1. "It represents the coalescence of three of our technologies," he said. "And it is the first time we have applied our expertise in large-core technology, multi-component technology and elastomer urethane technology into one product." (An elastomer resembles rubber.)

According to Sine, the new ball has a large rubber core that is 1.55 inches in diameter, which is the largest ever for a multi-layer ball, as well as an ionomer casing (ionomer refers to a class of plastics) and elastomer urethane cover. The construction is similar to that of Callaway Golf's Rule 35, Nike Golf's Precision Tour Accuracy and Precept's MC

Tour Premium.

The Pro V1, which will go to market under a different name, is being positioned as "yet another performance choice" that is expected to compliment, and not compete against Titleist's other urethane-covered balls, the Tour Prestige and Professional.

However, some industry analysts fear that such an introduction could harm Titleist's longstanding success with wound balls because the Pro V1 will, in fact, compete against those products.

Sine does not believe that will be the case. "I expect the demand for our wound products will continue to be strong," he says. "The things that wound technology afford players of all levels will not go away, and there will be plenty of player types who stick with it."

It may be several months before that audience is able to get their hands on the new ball. "I think there will be some very limited quantities available for retailers around the holidays," said John Clouse, merchandise manager for the Golf Galaxy outlets, "though it probably won't be until the spring before the Pro V1 will be really accessible."

But he doesn't think that will hurt Titleist in the least. "Especially after what happened this past week," he added. "The success on tour is a big help, and the wait will probably create even more demand for the ball. Good golfers are going to want to try it, and even if they can't get it right away, I think their demand for it will only get stronger. And that means the ball should be really well-positioned for the spring."

Only time will tell if his crystal ball is as good as Peter Jacobsen's.

EXHIBIT 5

Inside look: Titleist's big makeover

BY JOHN STEINBREGER

Fall Haven, Mass.

Not quite a year ago, in the weeks following the debut of the Pro VI at the Inverness Classic in Las Vegas, Titleist executives were feeling good about the ball's introduction. "We had a lot of momentum and awareness coming out of Vegas," says George Sine, vice president of golf ball marketing and strategic planning, available for Acushnet. "And that just has what you want with a new product."

The Pro VI's success—including play by tournament winner Billy Andrade and six top 10s—was a mixed blessing, however. The company was going to have to make more balls available to consumers well before its planned March 2001 introduction—five months away—and had only about 1,000 dozen on hand, less than a month's inventory.

As limited quantities slipped to Sun Belt markets for sale in December, Titleist management began grappling with whether to undertake a vast conversion of much of its wound-ball production capability—even before the success of the Pro VI was ensured—that would end up costing \$1 million.

Now, with the company's makeover complete, it is being characterized as nothing short of a business miracle by at least one industry analyst. "There were a number of days when we had a concern and a tight deadline," says Wally Uhlein, the chief executive officer of Acushnet Co., the parent of Titleist. "The anxiety level was extremely high because we were looking the fan on the success of this ball. We essentially cleared to oblige ourselves in a very important area and put everything behind the Pro VI."

Titleist executives recently told *Golfweek* how the company responded to one that followed the ball's introduction—and how it managed the rapid changeover.

A year ago, the executives were saying very little, quietly preparing their response to those who questioned whether Titleist

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long-time stranglehold on the ball market might be in jeopardy—a number that grew dramatically after Tiger Woods switched to the Nike Tour Accuracy ball in May 2000.

Woods had been playing the Titleist Professional, a wound ball with a liquid-filled center. But when he teed up a solid Nike, he spurred a shift to nonwound balls as players sought more distance without sacrificing critical feel properties.

And most of Titleist's franchise for professional and serious amateur golfers centered around wound balls, such as Professional and Tour Prestige. When Woods made his change, Titleist was deriving 45 percent of its total ball revenues from wound products. So when the shift toward the use of solid construction balls among touring professionals began, Titleist seemed to be in a heap of trouble.

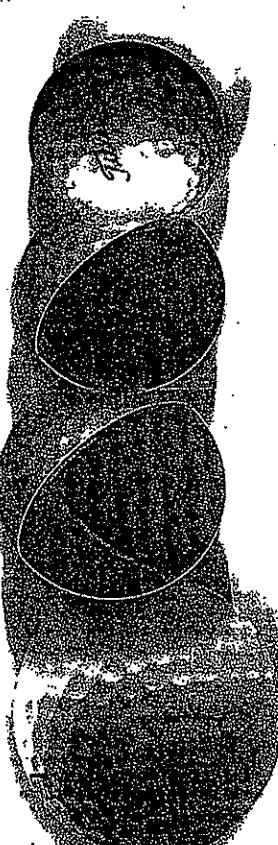
"That was certainly my take," says Casey Alexander, special situations analyst for Gilford Securities in New York. "At the end of last year, I considered Titleist to be the most at-risk ball company, primarily because of what was happening in that area and the fact that their premium ball business was mostly wound."

Nearly a year later, Alexander admits he was dead wrong.

"As far as I'm concerned, Titleist has pulled off a business miracle," says Alexander. "It has not only managed to hold onto its share of the ball business but also grow in what has been a brutally competitive market. The company has converted almost half its production capacity from one kind of manufacturing to another, and done so with remarkable speed and efficiency. And in the process, it has produced the honest product in golf."

That product, of course, is the Pro VI, and almost anyone who carries a handicap has heard of it. The ball features a large rubber core, an ionomer casting and a thin urethane cover that combine to give greater distance and feel. Titleist spokesman Phil Mickelson calls it "the best ball that's ever been created," and dozens of touring pros, whether they are under contract to the Fall Haven, Mass., equipment maker or not, have rushed to put it in play. Weekend golfers practically dive into water hazards to fetch ones they dumped into the drink, and club pros have hoarded sleeves of Pro VIs like black-market diamonds, selling precious dobs and dabs to their members while they badge sales reps for more.

The product is so sought after that, according to Titleist executives, Pro VI captured an astonishing 10.5 percent share of ball sales at on- and off-course specialty stores for June, just seven months after it went on the market.



How did Titleist pull it off?

It wasn't easy, it wasn't cheap, and it didn't happen overnight.

"We first started building Pro VI prototypes in the mid-1990s," says Uhlein. "We had some of our Tour players hit what we called a Professional II, which had a urethane cover like the Professional but a solid core. However, we didn't think it was good enough to bring to market."

That didn't stop Titleist from continuing to work on that concept, and in 1997 the company filed its first patent for the future Pro

VI. Development of the then-unnamed golf ball continued at a fairly steady pace through the 2000 PGA Merchandise Show in Orlando, Fla.

"But then things really accelerated," Uhlein says. "We had made the decision to wait and see what our competitors came out with at the show and where we had to be for our product to be better. And once we knew what they had, we really pushed on."

According to an industry executive who asked that his name not be used, Titleist officials were particularly impressed with the new Callaway Rule 35 golf ball, and they told the research and development team to come up with something better in very short order.

In June 2000, shortly after Woods officially switched to the new Nike Tour Accuracy, Titleist orchestrated what it called the 100-man march, which had more than 100 Tour players test its latest ball, comparing it with its own products as well as those produced by competitors.

"That lasted a couple of months, with Phil Mickelson being our Chuck Yeager, our lead test pilot," Uhlein says. "When all was said and done, we had between 80 percent and 90 percent saying they would put the new ball in play. So we were ready to go."

By that time, the "new ball" had acquired an official moniker, Pro VI, which was nothing more than a code name created by Bill Morgan, Acushnet senior vice president of golf ball research and development.

"We needed to give it a name, any name, so we could submit it to the USGA for approval," says Morgan.

The next step was to put the ball in tournament play, and that came last October at the Inverness Classic in Las Vegas when 47 PGA touring pros, about a third of the field, played the new Pro VI after it made its debut on the U.S. Golf Association's concomitant list. And just about everybody playing in the Vegas event was talking up the ball by the end of the tournament.

Even more players teed up the Pro VI at the next Tour stop, and pros began converting in droves. The media quickly picked up the story, and that got the general golf public worked up. Everyone, it seemed, had to have the new ball, and the quirky code name Morgan had given it quickly became one of the most recognizable in golf. Shortly after the Las Vegas tournament, executives at Titleist decided to keep the Pro VI name because it had gathered tremendous cachet in only a few weeks.

That presented a number of production difficulties, especially as it related to capacity. The original plan was for Titleist to keep producing urethane-covered golf balls at a rate of roughly 3.5 million to 4 million dozen a year,

with the Pro VI eventually replacing the Professionals, Tour Prestiges and Tour Balatas it was making. All of that would take place at Ball Plant No. 1 in Acushnet, Mass., where the company had seven manufacturing cells.

"We had been making some prototype balls in April and May, and in the summer of 2000 we decided to dedicate one cell exclusively to Pro VI production," says Morgan.

And at the time of the Vegas debut, Uhlein says the company only had about four weeks of inventory on hand, perhaps 1,000 dozen golf balls.

"Remember," Uhlein says, "we were planning for a March introduction. And that would have allowed us the time to build our production capacity."

But the consumer response to Pro VI did not give Titleist that luxury of time, and the company feverishly began converting urethane-cover production to that new ball. (The Pro VI cover is thinner than those used for Professional and Tour Prestige and the material is somewhat different.) Titleist also announced that it no longer would produce Tour Prestige or Tour Balata, and cut way back on the making of Professional. At the same time, Titleist began adding production cells, and by the middle of 2001 it had a total of 12 in operation, with more being planned for 2002.

"Not only were we getting almost 100 percent cannibalization on our urethane-cover balls, but we were also picking up share from some of our other lines, and from competitors," says Uhlein. "That's why the production numbers went up."

According to company officials, Titleist is producing urethane-covered balls at a rate of 5 million dozen a year, 95 percent of which are Pro VIs, and is gearing up to go to 6 million as it gets ready to introduce some new Pro VI product early in 2002.

"We did in two months what we normally had to accomplish in six," says Sine. "But we had no choice."

Not surprisingly, it has not been a very stress-free undertaking.

"Yes, we were very confident about this ball because we were getting a lot of enthusiastic feedback from our Tour players," Uhlein says. "Still, it was a challenging process, and the speed at which this all took place is unprecedented, especially as it related to increasing capacity to meet the demand. I think it is the most massive paradigm shift ever seen in the golf ball category, and certainly the most intense and accelerated one in any product category I've ever witnessed."

Pretty big talk, to be sure. But people have been saying things like that about Pro VI ever since Las Vegas.

True to its reputation, the ball has gone a long way in a very short time. □

EXHIBIT 6

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